

REFERENCE TITLE: universities; sales tax exemptions

State of Arizona  
House of Representatives  
Forty-eighth Legislature  
Second Regular Session  
2008

# HB 2264

Introduced by  
Representatives Nichols, Ableser, Mason: Robson

## AN ACT

AMENDING TITLE 15, CHAPTER 13, ARTICLE 4, ARIZONA REVISED STATUTES, BY ADDING SECTION 15-1671; AMENDING SECTIONS 42-5061, 42-5063, 42-5064, 42-5066, 42-5075 AND 42-5159, ARIZONA REVISED STATUTES; RELATING TO TRANSACTION PRIVILEGE AND USE TAX.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:

2 Section 1. Title 15, chapter 13, article 4, Arizona Revised Statutes,  
3 is amended by adding section 15-1671, to read:

4 15-1671. University life-safety, building renewal and deferred  
5 maintenance funding

6 BEGINNING IN FISCAL YEAR 2008-2009, UNIVERSITIES UNDER THE JURISDICTION  
7 OF THE ARIZONA BOARD OF REGENTS SHALL USE THE BUDGETARY SAVINGS REALIZED FROM  
8 THE FOLLOWING TRANSACTION PRIVILEGE AND USE TAX PROVISIONS TO PAY THE COST  
9 OF, OR THE DEBT SERVICE OR LEASE-PURCHASE PAYMENTS BY THE UNIVERSITY FOR,  
10 LIFE-SAFETY, BUILDING RENEWAL OR DEFERRED MAINTENANCE CAPITAL PROJECTS:

11 1. SECTION 42-5061, SUBSECTION A, PARAGRAPH 25, SUBDIVISION (g),  
12 RELATING TO RETAIL TRANSACTIONS.

13 2. SECTION 42-5063, SUBSECTION C, PARAGRAPH 3, SUBDIVISION (c),  
14 RELATING TO UTILITIES.

15 3. SECTION 42-5064, SUBSECTION B, PARAGRAPH 6, RELATING TO  
16 TELECOMMUNICATIONS.

17 4. SECTION 42-5066, SUBSECTION B, PARAGRAPH 6, RELATING TO JOB  
18 PRINTING.

19 5. SECTION 42-5075, SUBSECTION B, PARAGRAPH 22, RELATING TO PRIME  
20 CONTRACTS.

21 6. SECTION 42-5159, SUBSECTION A, PARAGRAPH 13, SUBDIVISION (m),  
22 RELATING TO USE TAX.

23 Sec. 2. Section 42-5061, Arizona Revised Statutes, is amended to read:

24 42-5061. Retail classification; definitions

25 A. The retail classification is comprised of the business of selling  
26 tangible personal property at retail. The tax base for the retail  
27 classification is the gross proceeds of sales or gross income derived from  
28 the business. The tax imposed on the retail classification does not apply to  
29 the gross proceeds of sales or gross income from:

30 1. Professional or personal service occupations or businesses which  
31 involve sales or transfers of tangible personal property only as  
32 inconsequential elements.

33 2. Services rendered in addition to selling tangible personal property  
34 at retail.

35 3. Sales of warranty or service contracts. The storage, use or  
36 consumption of tangible personal property provided under the conditions of  
37 such contracts is subject to tax under section 42-5156.

38 4. Sales of tangible personal property by any nonprofit organization  
39 organized and operated exclusively for charitable purposes and recognized by  
40 the United States internal revenue service under section 501(c)(3) of the  
41 internal revenue code.

42 5. Sales to persons engaged in business classified under the  
43 restaurant classification of articles used by human beings for food, drink or  
44 condiment, whether simple, mixed or compounded.

1           6. Business activity which is properly included in any other business  
2 classification which is taxable under article 1 of this chapter.

3           7. The sale of stocks and bonds.

4           8. Drugs and medical oxygen, including delivery hose, mask or tent,  
5 regulator and tank, on the prescription of a member of the medical, dental or  
6 veterinarian profession who is licensed by law to administer such substances.

7           9. Prosthetic appliances as defined in section 23-501 prescribed or  
8 recommended by a health professional licensed pursuant to title 32, chapter  
9 7, 8, 11, 13, 14, 15, 16, 17 or 29.

10          10. Insulin, insulin syringes and glucose test strips.

11          11. Prescription eyeglasses or contact lenses.

12          12. Hearing aids as defined in section 36-1901.

13          13. Durable medical equipment which has a centers for medicare and  
14 medicaid services common procedure code, is designated reimbursable by  
15 medicare, is prescribed by a person who is licensed under title 32, chapter  
16 7, 8, 13, 14, 15, 17 or 29, can withstand repeated use, is primarily and  
17 customarily used to serve a medical purpose, is generally not useful to a  
18 person in the absence of illness or injury and is appropriate for use in the  
19 home.

20          14. Sales to nonresidents of this state for use outside this state if  
21 the vendor ships or delivers the tangible personal property out of this  
22 state.

23          15. Food, as provided in and subject to the conditions of article 3 of  
24 this chapter and section 42-5074.

25          16. Items purchased with United States department of agriculture food  
26 stamp coupons issued under the food stamp act of 1977 (P.L. 95-113; 91 Stat.  
27 958) or food instruments issued under section 17 of the child nutrition act  
28 (P.L. 95-627; 92 Stat. 3603; P.L. 99-661, section 4302; 42 United States Code  
29 section 1786).

30          17. Textbooks by any bookstore that are required by any state  
31 university or community college.

32          18. Food and drink to a person who is engaged in business which is  
33 classified under the restaurant classification and which provides such food  
34 and drink without monetary charge to its employees for their own consumption  
35 on the premises during the employees' hours of employment.

36          19. Articles of food, drink or condiment and accessory tangible  
37 personal property to a school district if such articles and accessory  
38 tangible personal property are to be prepared and served to persons for  
39 consumption on the premises of a public school within the district during  
40 school hours.

41          20. Lottery tickets or shares pursuant to title 5, chapter 5,  
42 article 1.

43          21. The sale of precious metal bullion and monetized bullion to the  
44 ultimate consumer, but the sale of coins or other forms of money for

1 manufacture into jewelry or works of art is subject to the tax. For the  
2 purposes of this paragraph:

3 (a) "Monetized bullion" means coins and other forms of money which are  
4 manufactured from gold, silver or other metals and which have been or are  
5 used as a medium of exchange in this or another state, the United States or a  
6 foreign nation.

7 (b) "Precious metal bullion" means precious metal, including gold,  
8 silver, platinum, rhodium and palladium, which has been smelted or refined so  
9 that its value depends on its contents and not on its form.

10 22. Motor vehicle fuel and use fuel which are subject to a tax imposed  
11 under title 28, chapter 16, article 1, sales of use fuel to a holder of a  
12 valid single trip use fuel tax permit issued under section 28-5739, sales of  
13 aviation fuel which are subject to the tax imposed under section 28-8344 and  
14 sales of jet fuel which are subject to the tax imposed under article 8 of  
15 this chapter.

16 23. Tangible personal property sold to a person engaged in the business  
17 of leasing or renting such property under the personal property rental  
18 classification if such property is to be leased or rented by such person.

19 24. Tangible personal property sold in interstate or foreign commerce  
20 if prohibited from being so taxed by the Constitution of the United States or  
21 the constitution of this state.

22 25. Tangible personal property sold to:

23 (a) A qualifying hospital as defined in section 42-5001.

24 (b) A qualifying health care organization as defined in section  
25 42-5001 if the tangible personal property is used by the organization solely  
26 to provide health and medical related educational and charitable services.

27 (c) A qualifying health care organization as defined in section  
28 42-5001 if the organization is dedicated to providing educational,  
29 therapeutic, rehabilitative and family medical education training for blind,  
30 visually impaired and multihandicapped children from the time of birth to age  
31 twenty-one.

32 (d) A qualifying community health center as defined in section  
33 42-5001.

34 (e) A nonprofit charitable organization that has qualified under  
35 section 501(c)(3) of the internal revenue code and that regularly serves  
36 meals to the needy and indigent on a continuing basis at no cost.

37 (f) For taxable periods beginning from and after June 30, 2001, a  
38 nonprofit charitable organization that has qualified under section 501(c)(3)  
39 of the internal revenue code and that provides residential apartment housing  
40 for low income persons over sixty-two years of age in a facility that  
41 qualifies for a federal housing subsidy, if the tangible personal property is  
42 used by the organization solely to provide residential apartment housing for  
43 low income persons over sixty-two years of age in a facility that qualifies  
44 for a federal housing subsidy.

1 (g) A STATE UNIVERSITY UNDER THE JURISDICTION OF THE ARIZONA BOARD OF  
2 REGENTS.

3 26. Magazines or other periodicals or other publications by this state  
4 to encourage tourist travel.

5 27. Tangible personal property sold to a person that is subject to tax  
6 under this article by reason of being engaged in business classified under  
7 the prime contracting classification under section 42-5075, or to a  
8 subcontractor working under the control of a prime contractor that is subject  
9 to tax under article 1 of this chapter, if the property so sold is any of the  
10 following:

11 (a) Incorporated or fabricated by the person into any real property,  
12 structure, project, development or improvement as part of the business.

13 (b) Used in environmental response or remediation activities under  
14 section 42-5075, subsection B, paragraph 6.

15 (c) Incorporated or fabricated by the person into any lake facility  
16 development in a commercial enhancement reuse district under conditions  
17 prescribed for the deduction allowed by section 42-5075, subsection B,  
18 paragraph 8.

19 28. The sale of a motor vehicle to:

20 (a) A nonresident of this state if the purchaser's state of residence  
21 does not allow a corresponding use tax exemption to the tax imposed by  
22 article 1 of this chapter and if the nonresident has secured a special ninety  
23 day nonresident registration permit for the vehicle as prescribed by sections  
24 28-2154 and 28-2154.01.

25 (b) An enrolled member of an Indian tribe who resides on the Indian  
26 reservation established for that tribe.

27 29. Tangible personal property purchased in this state by a nonprofit  
28 charitable organization that has qualified under section 501(c)(3) of the  
29 United States internal revenue code and that engages in and uses such  
30 property exclusively in programs for mentally or physically handicapped  
31 persons if the programs are exclusively for training, job placement,  
32 rehabilitation or testing.

33 30. Sales of tangible personal property by a nonprofit organization  
34 that is exempt from taxation under section 501(c)(3), 501(c)(4) or 501(c)(6)  
35 of the internal revenue code if the organization is associated with a major  
36 league baseball team or a national touring professional golfing association  
37 and no part of the organization's net earnings inures to the benefit of any  
38 private shareholder or individual.

39 31. Sales of commodities, as defined by title 7 United States Code  
40 section 2, that are consigned for resale in a warehouse in this state in or  
41 from which the commodity is deliverable on a contract for future delivery  
42 subject to the rules of a commodity market regulated by the United States  
43 commodity futures trading commission.

44 32. Sales of tangible personal property by a nonprofit organization  
45 that is exempt from taxation under section 501(c)(3), 501(c)(4), 501(c)(6),

501(c)(7) or 501(c)(8) of the internal revenue code if the organization sponsors or operates a rodeo featuring primarily farm and ranch animals and no part of the organization's net earnings inures to the benefit of any private shareholder or individual.

33. Sales of seeds, seedlings, roots, bulbs, cuttings and other propagative material to persons who use those items to commercially produce agricultural, horticultural, viticultural or floricultural crops in this state.

34. Machinery, equipment, technology or related supplies that are only useful to assist a person who is physically disabled as defined in section 46-191, has a developmental disability as defined in section 36-551 or has a head injury as defined in section 41-3201 to be more independent and functional.

35. Sales of tangible personal property that is shipped or delivered directly to a destination outside the United States for use in that foreign country.

36. Sales of natural gas or liquefied petroleum gas used to propel a motor vehicle.

37. Paper machine clothing, such as forming fabrics and dryer felts, sold to a paper manufacturer and directly used or consumed in paper manufacturing.

38. Coal, petroleum, coke, natural gas, virgin fuel oil and electricity sold to a qualified environmental technology manufacturer, producer or processor as defined in section 41-1514.02 and directly used or consumed in the generation or provision of on-site power or energy solely for environmental technology manufacturing, producing or processing or environmental protection. This paragraph shall apply for fifteen full consecutive calendar or fiscal years from the date the first paper manufacturing machine is placed in service. In the case of an environmental technology manufacturer, producer or processor who does not manufacture paper, the time period shall begin with the date the first manufacturing, processing or production equipment is placed in service.

39. Sales of liquid, solid or gaseous chemicals used in manufacturing, processing, fabricating, mining, refining, metallurgical operations, research and development and, beginning on January 1, 1999, printing, if using or consuming the chemicals, alone or as part of an integrated system of chemicals, involves direct contact with the materials from which the product is produced for the purpose of causing or permitting a chemical or physical change to occur in the materials as part of the production process. This paragraph does not include chemicals that are used or consumed in activities such as packaging, storage or transportation but does not affect any deduction for such chemicals that is otherwise provided by this section. For the purposes of this paragraph, "printing" means a commercial printing operation and includes job printing, engraving, embossing, copying and bookbinding.

1        40. Through December 31, 1994, personal property liquidation  
2 transactions, conducted by a personal property liquidator. From and after  
3 December 31, 1994, personal property liquidation transactions shall be  
4 taxable under this section provided that nothing in this subsection shall be  
5 construed to authorize the taxation of casual activities or transactions  
6 under this chapter. For the purposes of this paragraph:

7        (a) "Personal property liquidation transaction" means a sale of  
8 personal property made by a personal property liquidator acting solely on  
9 behalf of the owner of the personal property sold at the dwelling of the  
10 owner or upon the death of any owner, on behalf of the surviving spouse, if  
11 any, any devisee or heir or the personal representative of the estate of the  
12 deceased, if one has been appointed.

13        (b) "Personal property liquidator" means a person who is retained to  
14 conduct a sale in a personal property liquidation transaction.

15        41. Sales of food, drink and condiment for consumption within the  
16 premises of any prison, jail or other institution under the jurisdiction of  
17 the state department of corrections, the department of public safety, the  
18 department of juvenile corrections or a county sheriff.

19        42. A motor vehicle and any repair and replacement parts and tangible  
20 personal property becoming a part of such motor vehicle sold to a motor  
21 carrier who is subject to a fee prescribed in title 28, chapter 16, article 4  
22 and who is engaged in the business of leasing or renting such property.

23        43. Livestock and poultry feed, salts, vitamins and other additives for  
24 livestock or poultry consumption that are sold to persons who are engaged in  
25 producing livestock, poultry, or livestock or poultry products or who are  
26 engaged in feeding livestock or poultry commercially. For the purposes of  
27 this paragraph, "poultry" includes ratites.

28        44. Sales of implants used as growth promotants and injectable  
29 medicines, not already exempt under paragraph 8 of this subsection, for  
30 livestock or poultry owned by or in possession of persons who are engaged in  
31 producing livestock, poultry, or livestock or poultry products or who are  
32 engaged in feeding livestock or poultry commercially. For the purposes of  
33 this paragraph, "poultry" includes ratites.

34        45. Sales of motor vehicles at auction to nonresidents of this state  
35 for use outside this state if the vehicles are shipped or delivered out of  
36 this state, regardless of where title to the motor vehicles passes or its  
37 free on board point.

38        46. Tangible personal property sold to a person engaged in business and  
39 subject to tax under the transient lodging classification if the tangible  
40 personal property is a personal hygiene item or articles used by human beings  
41 for food, drink or condiment, except alcoholic beverages, which are furnished  
42 without additional charge to and intended to be consumed by the transient  
43 during the transient's occupancy.

1       47. Sales of alternative fuel, as defined in section 1-215, to a used  
2 oil fuel burner who has received a permit to burn used oil or used oil fuel  
3 under section 49-426 or 49-480.

4       48. Sales of materials that are purchased by or for publicly funded  
5 libraries including school district libraries, charter school libraries,  
6 community college libraries, state university libraries or federal, state,  
7 county or municipal libraries for use by the public as follows:

8       (a) Printed or photographic materials, beginning August 7, 1985.

9       (b) Electronic or digital media materials, beginning July 17, 1994.

10       49. Tangible personal property sold to a commercial airline and  
11 consisting of food, beverages and condiments and accessories used for serving  
12 the food and beverages, if those items are to be provided without additional  
13 charge to passengers for consumption in flight. For the purposes of this  
14 paragraph, "commercial airline" means a person holding a federal certificate  
15 of public convenience and necessity or foreign air carrier permit for air  
16 transportation to transport persons, property or United States mail in  
17 intrastate, interstate or foreign commerce.

18       50. Sales of alternative fuel vehicles if the vehicle was manufactured  
19 as a diesel fuel vehicle and converted to operate on alternative fuel and  
20 equipment that is installed in a conventional diesel fuel motor vehicle to  
21 convert the vehicle to operate on an alternative fuel, as defined in section  
22 1-215.

23       51. Sales of any spirituous, vinous or malt liquor by a person that is  
24 licensed in this state as a wholesaler by the department of liquor licenses  
25 and control pursuant to title 4, chapter 2, article 1.

26       52. Sales of tangible personal property to be incorporated or installed  
27 as part of environmental response or remediation activities under section  
28 42-5075, subsection B, paragraph 6.

29       53. Sales of tangible personal property by a nonprofit organization  
30 that is exempt from taxation under section 501(c)(6) of the internal revenue  
31 code if the organization produces, organizes or promotes cultural or civic  
32 related festivals or events and no part of the organization's net earnings  
33 inures to the benefit of any private shareholder or individual.

34       54. Through August 31, 2014, sales of Arizona centennial medallions by  
35 the historical advisory commission.

36       B. In addition to the deductions from the tax base prescribed by  
37 subsection A of this section, the gross proceeds of sales or gross income  
38 derived from sales of the following categories of tangible personal property  
39 shall be deducted from the tax base:

40       1. Machinery, or equipment, used directly in manufacturing,  
41 processing, fabricating, job printing, refining or metallurgical operations.  
42 The terms "manufacturing", "processing", "fabricating", "job printing",  
43 "refining" and "metallurgical" as used in this paragraph refer to and include  
44 those operations commonly understood within their ordinary meaning.



1 "Metallurgical operations" includes leaching, milling, precipitating,  
2 smelting and refining.

3 2. Mining machinery, or equipment, used directly in the process of  
4 extracting ores or minerals from the earth for commercial purposes, including  
5 equipment required to prepare the materials for extraction and handling,  
6 loading or transporting such extracted material to the surface. "Mining"  
7 includes underground, surface and open pit operations for extracting ores and  
8 minerals.

9 3. Tangible personal property sold to persons engaged in business  
10 classified under the telecommunications classification and consisting of  
11 central office switching equipment, switchboards, private branch exchange  
12 equipment, microwave radio equipment and carrier equipment including optical  
13 fiber, coaxial cable and other transmission media which are components of  
14 carrier systems.

15 4. Machinery, equipment or transmission lines used directly in  
16 producing or transmitting electrical power, but not including distribution.  
17 Transformers and control equipment used at transmission substation sites  
18 constitute equipment used in producing or transmitting electrical power.

19 5. Neat animals, horses, asses, sheep, ratites, swine or goats used or  
20 to be used as breeding or production stock, including sales of breedings or  
21 ownership shares in such animals used for breeding or production.

22 6. Pipes or valves four inches in diameter or larger used to transport  
23 oil, natural gas, artificial gas, water or coal slurry, including compressor  
24 units, regulators, machinery and equipment, fittings, seals and any other  
25 part that is used in operating the pipes or valves.

26 7. Aircraft, navigational and communication instruments and other  
27 accessories and related equipment sold to:

28 (a) A person holding a federal certificate of public convenience and  
29 necessity, a supplemental air carrier certificate under federal aviation  
30 regulations (14 Code of Federal Regulations part 121) or a foreign air  
31 carrier permit for air transportation for use as or in conjunction with or  
32 becoming a part of aircraft to be used to transport persons, property or  
33 United States mail in intrastate, interstate or foreign commerce.

34 (b) Any foreign government for use by such government outside of this  
35 state.

36 (c) Persons who are not residents of this state and who will not use  
37 such property in this state other than in removing such property from this  
38 state. This subdivision also applies to corporations that are not  
39 incorporated in this state, regardless of maintaining a place of business in  
40 this state, if the principal corporate office is located outside this state  
41 and the property will not be used in this state other than in removing the  
42 property from this state.

43 8. Machinery, tools, equipment and related supplies used or consumed  
44 directly in repairing, remodeling or maintaining aircraft, aircraft engines

1 or aircraft component parts by or on behalf of a certificated or licensed  
2 carrier of persons or property.

3 9. Railroad rolling stock, rails, ties and signal control equipment  
4 used directly to transport persons or property.

5 10. Machinery or equipment used directly to drill for oil or gas or  
6 used directly in the process of extracting oil or gas from the earth for  
7 commercial purposes.

8 11. Buses or other urban mass transit vehicles which are used directly  
9 to transport persons or property for hire or pursuant to a governmentally  
10 adopted and controlled urban mass transportation program and which are sold  
11 to bus companies holding a federal certificate of convenience and necessity  
12 or operated by any city, town or other governmental entity or by any person  
13 contracting with such governmental entity as part of a governmentally adopted  
14 and controlled program to provide urban mass transportation.

15 12. Groundwater measuring devices required under section 45-604.

16 13. New machinery and equipment consisting of tractors, tractor-drawn  
17 implements, self-powered implements, machinery and equipment necessary for  
18 extracting milk, and machinery and equipment necessary for cooling milk and  
19 livestock, and drip irrigation lines not already exempt under paragraph 6 of  
20 this subsection and that are used for commercial production of agricultural,  
21 horticultural, viticultural and floricultural crops and products in this  
22 state. For the purposes of this paragraph:

23 (a) "New machinery and equipment" means machinery and equipment which  
24 have never been sold at retail except pursuant to leases or rentals which do  
25 not total two years or more.

26 (b) "Self-powered implements" includes machinery and equipment that  
27 are electric-powered.

28 14. Machinery or equipment used in research and development. For the  
29 purposes of this paragraph, "research and development" means basic and  
30 applied research in the sciences and engineering, and designing, developing  
31 or testing prototypes, processes or new products, including research and  
32 development of computer software that is embedded in or an integral part of  
33 the prototype or new product or that is required for machinery or equipment  
34 otherwise exempt under this section to function effectively. Research and  
35 development do not include manufacturing quality control, routine consumer  
36 product testing, market research, sales promotion, sales service, research in  
37 social sciences or psychology, computer software research that is not  
38 included in the definition of research and development, or other  
39 nontechnological activities or technical services.

40 15. Machinery and equipment that are purchased by or on behalf of the  
41 owners of a soundstage complex and primarily used for motion picture,  
42 multimedia or interactive video production in the complex. This paragraph  
43 applies only if the initial construction of the soundstage complex begins  
44 after June 30, 1996 and before January 1, 2002 and the machinery and

equipment are purchased before the expiration of five years after the start of initial construction. For the purposes of this paragraph:

(a) "Motion picture, multimedia or interactive video production" includes products for theatrical and television release, educational presentations, electronic retailing, documentaries, music videos, industrial films, CD-ROM, video game production, commercial advertising and television episode production and other genres that are introduced through developing technology.

(b) "Soundstage complex" means a facility of multiple stages including production offices, construction shops and related areas, prop and costume shops, storage areas, parking for production vehicles and areas that are leased to businesses that complement the production needs and orientation of the overall facility.

16. Tangible personal property that is used by either of the following to receive, store, convert, produce, generate, decode, encode, control or transmit telecommunications information:

(a) Any direct broadcast satellite television or data transmission service that operates pursuant to 47 Code of Federal Regulations parts 25 and 100.

(b) Any satellite television or data transmission facility, if both of the following conditions are met:

(i) Over two-thirds of the transmissions, measured in megabytes, transmitted by the facility during the test period were transmitted to or on behalf of one or more direct broadcast satellite television or data transmission services that operate pursuant to 47 Code of Federal Regulations parts 25 and 100.

(ii) Over two-thirds of the transmissions, measured in megabytes, transmitted by or on behalf of those direct broadcast television or data transmission services during the test period were transmitted by the facility to or on behalf of those services.

For the purposes of subdivision (b) of this paragraph, "test period" means the three hundred sixty-five day period beginning on the later of the date on which the tangible personal property is purchased or the date on which the direct broadcast satellite television or data transmission service first transmits information to its customers.

17. Clean rooms that are used for manufacturing, processing, fabrication or research and development, as defined in paragraph 14 of this subsection, of semiconductor products. For the purposes of this paragraph, "clean room" means all property that comprises or creates an environment where humidity, temperature, particulate matter and contamination are precisely controlled within specified parameters, without regard to whether the property is actually contained within that environment or whether any of the property is affixed to or incorporated into real property. Clean room:

(a) Includes the integrated systems, fixtures, piping, movable partitions, lighting and all property that is necessary or adapted to reduce

1 contamination or to control airflow, temperature, humidity, chemical purity  
2 or other environmental conditions or manufacturing tolerances, as well as the  
3 production machinery and equipment operating in conjunction with the clean  
4 room environment.

5 (b) Does not include the building or other permanent, nonremovable  
6 component of the building that houses the clean room environment.

7 18. Machinery and equipment used directly in the feeding of poultry,  
8 the environmental control of housing for poultry, the movement of eggs within  
9 a production and packaging facility or the sorting or cooling of eggs. This  
10 exemption does not apply to vehicles used for transporting eggs.

11 19. Machinery or equipment, including related structural components,  
12 that is employed in connection with manufacturing, processing, fabricating,  
13 job printing, refining, mining, natural gas pipelines, metallurgical  
14 operations, telecommunications, producing or transmitting electricity or  
15 research and development and that is used directly to meet or exceed rules or  
16 regulations adopted by the federal energy regulatory commission, the United  
17 States environmental protection agency, the United States nuclear regulatory  
18 commission, the Arizona department of environmental quality or a political  
19 subdivision of this state to prevent, monitor, control or reduce land, water  
20 or air pollution.

21 20. Machinery and equipment that are sold to a person engaged in the  
22 commercial production of livestock, livestock products or agricultural,  
23 horticultural, viticultural or floricultural crops or products in this state  
24 and that are used directly and primarily to prevent, monitor, control or  
25 reduce air, water or land pollution.

26 21. Machinery or equipment that enables a television station to  
27 originate and broadcast or to receive and broadcast digital television  
28 signals and that was purchased to facilitate compliance with the  
29 telecommunications act of 1996 (P.L. 104-104; 110 Stat. 56; 47 United States  
30 Code section 336) and the federal communications commission order issued  
31 April 21, 1997 (47 Code of Federal Regulations part 73). This paragraph does  
32 not exempt any of the following:

33 (a) Repair or replacement parts purchased for the machinery or  
34 equipment described in this paragraph.

35 (b) Machinery or equipment purchased to replace machinery or equipment  
36 for which an exemption was previously claimed and taken under this paragraph.

37 (c) Any machinery or equipment purchased after the television station  
38 has ceased analog broadcasting, or purchased after November 1, 2009,  
39 whichever occurs first.

40 22. Qualifying equipment that is purchased from and after June 30, 2004  
41 through June 30, 2014 by a qualified business under section 41-1516 for  
42 harvesting or the initial processing of qualifying forest products removed  
43 from qualifying projects as defined in section 41-1516. To qualify for this  
44 deduction, the qualified business at the time of purchase must present its  
45 certification approved by the department.

23. Machinery, equipment and other tangible personal property used directly in motion picture production by a motion picture production company. To qualify for this deduction, at the time of purchase, the motion picture production company must present to the retailer its certificate that is issued pursuant to section 42-5009, subsection H and that establishes its qualification for the deduction.

C. The deductions provided by subsection B of this section do not include sales of:

1. Expendable materials. For the purposes of this paragraph, expendable materials do not include any of the categories of tangible personal property specified in subsection B of this section regardless of the cost or useful life of that property.

2. Janitorial equipment and hand tools.

3. Office equipment, furniture and supplies.

4. Tangible personal property used in selling or distributing activities, other than the telecommunications transmissions described in subsection B, paragraph 16 of this section.

5. Motor vehicles required to be licensed by this state, except buses or other urban mass transit vehicles specifically exempted pursuant to subsection B, paragraph 11 of this section, without regard to the use of such motor vehicles.

6. Shops, buildings, docks, depots and all other materials of whatever kind or character not specifically included as exempt.

7. Motors and pumps used in drip irrigation systems.

D. In addition to the deductions from the tax base prescribed by subsection A of this section, there shall be deducted from the tax base the gross proceeds of sales or gross income derived from sales of machinery, equipment, materials and other tangible personal property used directly and predominantly to construct a qualified environmental technology manufacturing, producing or processing facility as described in section 41-1514.02. This subsection applies for ten full consecutive calendar or fiscal years after the start of initial construction.

E. In computing the tax base, gross proceeds of sales or gross income from retail sales of heavy trucks and trailers does not include any amount attributable to federal excise taxes imposed by 26 United States Code section 4051.

F. In computing the tax base, gross proceeds of sales or gross income from the sale of use fuel, as defined in section 28-5601, does not include any amount attributable to federal excise taxes imposed by 26 United States Code section 4091.

G. If a person is engaged in an occupation or business to which subsection A of this section applies, the person's books shall be kept so as to show separately the gross proceeds of sales of tangible personal property and the gross income from sales of services, and if not so kept the tax shall

1 be imposed on the total of the person's gross proceeds of sales of tangible  
2 personal property and gross income from services.

3 H. If a person is engaged in the business of selling tangible personal  
4 property at both wholesale and retail, the tax under this section applies  
5 only to the gross proceeds of the sales made other than at wholesale if the  
6 person's books are kept so as to show separately the gross proceeds of sales  
7 of each class, and if the books are not so kept, the tax under this section  
8 applies to the gross proceeds of every sale so made.

9 I. A person who engages in manufacturing, baling, crating, boxing,  
10 barreling, canning, bottling, sacking, preserving, processing or otherwise  
11 preparing for sale or commercial use any livestock, agricultural or  
12 horticultural product or any other product, article, substance or commodity  
13 and who sells the product of such business at retail in this state is deemed,  
14 as to such sales, to be engaged in business classified under the retail  
15 classification. This subsection does not apply to businesses classified  
16 under the:

- 17 1. Transporting classification.
- 18 2. Utilities classification.
- 19 3. Telecommunications classification.
- 20 4. Pipeline classification.
- 21 5. Private car line classification.
- 22 6. Publication classification.
- 23 7. Job printing classification.
- 24 8. Prime contracting classification.
- 25 9. Owner builder sales classification.
- 26 10. Restaurant classification.

27 J. The gross proceeds of sales or gross income derived from the  
28 following shall be deducted from the tax base for the retail classification:

29 1. Sales made directly to the United States government or its  
30 departments or agencies by a manufacturer, modifier, assembler or repairer.

31 2. Sales made directly to a manufacturer, modifier, assembler or  
32 repairer if such sales are of any ingredient or component part of products  
33 sold directly to the United States government or its departments or agencies  
34 by the manufacturer, modifier, assembler or repairer.

35 3. Overhead materials or other tangible personal property that is used  
36 in performing a contract between the United States government and a  
37 manufacturer, modifier, assembler or repairer, including property used in  
38 performing a subcontract with a government contractor who is a manufacturer,  
39 modifier, assembler or repairer, to which title passes to the government  
40 under the terms of the contract or subcontract.

41 4. Sales of overhead materials or other tangible personal property to  
42 a manufacturer, modifier, assembler or repairer if the gross proceeds of  
43 sales or gross income derived from the property by the manufacturer,  
44 modifier, assembler or repairer will be exempt under paragraph 3 of this  
45 subsection.

1 K. There shall be deducted from the tax base fifty per cent of the  
2 gross proceeds or gross income from any sale of tangible personal property  
3 made directly to the United States government or its departments or agencies,  
4 which is not deducted under subsection J of this section.

5 L. The department shall require every person claiming a deduction  
6 provided by subsection J or K of this section to file on forms prescribed by  
7 the department at such times as the department directs a sworn statement  
8 disclosing the name of the purchaser and the exact amount of sales on which  
9 the exclusion or deduction is claimed.

10 M. In computing the tax base, gross proceeds of sales or gross income  
11 does not include:

12 1. A manufacturer's cash rebate on the sales price of a motor vehicle  
13 if the buyer assigns the buyer's right in the rebate to the retailer.

14 2. The waste tire disposal fee imposed pursuant to section 44-1302.

15 N. There shall be deducted from the tax base the amount received from  
16 sales of solar energy devices. The retailer shall register with the  
17 department as a solar energy retailer. By registering, the retailer  
18 acknowledges that it will make its books and records relating to sales of  
19 solar energy devices available to the department for examination.

20 O. In computing the tax base in the case of the sale or transfer of  
21 wireless telecommunications equipment as an inducement to a customer to enter  
22 into or continue a contract for telecommunications services that are taxable  
23 under section 42-5064, gross proceeds of sales or gross income does not  
24 include any sales commissions or other compensation received by the retailer  
25 as a result of the customer entering into or continuing a contract for the  
26 telecommunications services.

27 P. For the purposes of this section, a sale of wireless  
28 telecommunications equipment to a person who holds the equipment for sale or  
29 transfer to a customer as an inducement to enter into or continue a contract  
30 for telecommunications services that are taxable under section 42-5064 is  
31 considered to be a sale for resale in the regular course of business.

32 Q. Retail sales of prepaid calling cards or prepaid authorization  
33 numbers for telecommunications services, including sales of reauthorization  
34 of a prepaid card or authorization number, are subject to tax under this  
35 section.

36 R. For the purposes of this section, the diversion of gas from a  
37 pipeline by a person engaged in the business of:

38 1. Operating a natural or artificial gas pipeline, for the sole  
39 purpose of fueling compressor equipment to pressurize the pipeline, is not a  
40 sale of the gas to the operator of the pipeline.

41 2. Converting natural gas into liquefied natural gas, for the sole  
42 purpose of fueling compressor equipment used in the conversion process, is  
43 not a sale of gas to the operator of the compressor equipment.

44 S. If a seller is entitled to a deduction pursuant to subsection B,  
45 paragraph 16, subdivision (b) of this section, the department may require the

1 purchaser to establish that the requirements of subsection B, paragraph 16,  
2 subdivision (b) of this section have been satisfied. If the purchaser cannot  
3 establish that the requirements of subsection B, paragraph 16, subdivision  
4 (b) of this section have been satisfied, the purchaser is liable in an amount  
5 equal to any tax, penalty and interest which the seller would have been  
6 required to pay under article 1 of this chapter if the seller had not made a  
7 deduction pursuant to subsection B, paragraph 16, subdivision (b) of this  
8 section. Payment of the amount under this subsection exempts the purchaser  
9 from liability for any tax imposed under article 4 of this chapter and  
10 related to the tangible personal property purchased. The amount shall be  
11 treated as transaction privilege tax to the purchaser and as tax revenues  
12 collected from the seller to designate the distribution base pursuant to  
13 section 42-5029.

14 T. For the purposes of section 42-5032.01, the department shall  
15 separately account for revenues collected under the retail classification  
16 from businesses selling tangible personal property at retail:

17 1. On the premises of a multipurpose facility that is owned, leased or  
18 operated by the tourism and sports authority pursuant to title 5, chapter 8.

19 2. At professional football contests that are held in a stadium  
20 located on the campus of an institution under the jurisdiction of the Arizona  
21 board of regents.

22 U. In computing the tax base for the sale of a motor vehicle to a  
23 nonresident of this state, if the purchaser's state of residence allows a  
24 corresponding use tax exemption to the tax imposed by article 1 of this  
25 chapter and the rate of the tax in the purchaser's state of residence is  
26 lower than the rate prescribed in article 1 of this chapter or if the  
27 purchaser's state of residence does not impose an excise tax, and the  
28 nonresident has secured a special ninety day nonresident registration permit  
29 for the vehicle as prescribed by sections 28-2154 and 28-2154.01, there shall  
30 be deducted from the tax base a portion of the gross proceeds or gross income  
31 from the sale so that the amount of transaction privilege tax that is paid in  
32 this state is equal to the excise tax that is imposed by the purchaser's  
33 state of residence on the nonexempt sale or use of the motor vehicle.

34 V. For the purposes of this section:

35 1. "Aircraft" includes:

36 (a) An airplane flight simulator that is approved by the federal  
37 aviation administration for use as a phase II or higher flight simulator  
38 under appendix H, 14 Code of Federal Regulations part 121.

39 (b) Tangible personal property that is permanently affixed or attached  
40 as a component part of an aircraft that is owned or operated by a  
41 certificated or licensed carrier of persons or property.

42 2. "Other accessories and related equipment" includes aircraft  
43 accessories and equipment such as ground service equipment that physically  
44 contact aircraft at some point during the overall carrier operation.



1           3. "Selling at retail" means a sale for any purpose other than for  
2 resale in the regular course of business in the form of tangible personal  
3 property, but transfer of possession, lease and rental as used in the  
4 definition of sale mean only such transactions as are found on investigation  
5 to be in lieu of sales as defined without the words lease or rental.

6           W. For the purposes of subsection J of this section:

7           1. "Assembler" means a person who unites or combines products, wares  
8 or articles of manufacture so as to produce a change in form or substance  
9 without changing or altering the component parts.

10          2. "Manufacturer" means a person who is principally engaged in the  
11 fabrication, production or manufacture of products, wares or articles for use  
12 from raw or prepared materials, imparting to those materials new forms,  
13 qualities, properties and combinations.

14          3. "Modifier" means a person who reworks, changes or adds to products,  
15 wares or articles of manufacture.

16          4. "Overhead materials" means tangible personal property, the gross  
17 proceeds of sales or gross income derived from which would otherwise be  
18 included in the retail classification, and which are used or consumed in the  
19 performance of a contract, the cost of which is charged to an overhead  
20 expense account and allocated to various contracts based upon generally  
21 accepted accounting principles and consistent with government contract  
22 accounting standards.

23          5. "Repairer" means a person who restores or renews products, wares or  
24 articles of manufacture.

25          6. "Subcontract" means an agreement between a contractor and any  
26 person who is not an employee of the contractor for furnishing of supplies or  
27 services that, in whole or in part, are necessary to the performance of one  
28 or more government contracts, or under which any portion of the contractor's  
29 obligation under one or more government contracts is performed, undertaken or  
30 assumed and that includes provisions causing title to overhead materials or  
31 other tangible personal property used in the performance of the subcontract  
32 to pass to the government or that includes provisions incorporating such  
33 title passing clauses in a government contract into the subcontract.

34          Sec. 3. Section 42-5063, Arizona Revised Statutes, is amended to read:

35          42-5063. Utilities classification; definitions

36          A. The utilities classification is comprised of the business of:

37           1. Producing and furnishing or furnishing to consumers natural or  
38 artificial gas and water.

39           2. Providing to retail electric customers ancillary services, electric  
40 distribution services, electric generation services, electric transmission  
41 services and other services related to providing electricity.

42          B. The ~~utility~~ UTILITIES classification does not include:

43           1. Sales of ancillary services, electric distribution services,  
44 electric generation services, electric transmission services and other

1 services related to providing electricity, gas or water to a person who  
2 resells the services.

3 2. Sales of natural gas or liquefied petroleum gas used to propel a  
4 motor vehicle.

5 3. Sales of alternative fuel, as defined in section 1-215, to a used  
6 oil fuel burner who has received a permit to burn used oil or used oil fuel  
7 under section 49-426 or 49-480.

8 4. Sales of ancillary services, electric distribution services,  
9 electric generation services, electric transmission services and other  
10 services that are related to providing electricity to a retail electric  
11 customer who is located outside this state for use outside this state if the  
12 electricity is delivered to a point of sale outside this state.

13 C. The tax base for the utilities classification is the gross proceeds  
14 of sales or gross income derived from the business, but the following shall  
15 be deducted from the tax base:

16 1. Revenues received by a municipally owned utility in the form of  
17 fees charged to persons constructing residential, commercial or industrial  
18 developments or connecting residential, commercial or industrial developments  
19 to a municipal utility system or systems if the fees are segregated and used  
20 only for capital expansion, system enlargement or debt service of the utility  
21 system or systems.

22 2. Revenues received by any person or persons owning a utility system  
23 in the form of reimbursement or contribution compensation for property and  
24 equipment installed to provide utility access to, on or across the land of an  
25 actual utility consumer if the property and equipment become the property of  
26 the utility. This deduction shall not exceed the value of such property and  
27 equipment.

28 3. Gross proceeds of sales or gross income derived from sales to:

29 (a) Qualifying hospitals as defined in section 42-5001.

30 (b) A qualifying health care organization as defined in section  
31 42-5001 if the tangible personal property is used by the organization solely  
32 to provide health and medical related educational and charitable services.

33 (c) A STATE UNIVERSITY UNDER THE JURISDICTION OF THE ARIZONA BOARD OF  
34 REGENTS.

35 4. The portion of gross proceeds of sales or gross income that is  
36 derived from sales to ~~an~~ A QUALIFIED environmental technology manufacturer,  
37 producer or processor as defined in section 41-1514.02 of a utility product  
38 and that is used directly in environmental technology manufacturing,  
39 producing or processing. This paragraph shall apply for fifteen full  
40 consecutive calendar or fiscal years from the date the first paper  
41 manufacturing machine is placed in service. In the case of ~~an~~ A QUALIFIED  
42 environmental technology manufacturer, producer or processor who does not  
43 manufacture paper, the time period shall begin with the date the first  
44 manufacturing, processing or production equipment is placed in service.

1 D. For **THE** purposes of this section:

2 1. "Ancillary services" means those services so designated in federal  
3 energy regulatory commission order 888 adopted in 1996 that include the  
4 services necessary to support the transmission of electricity from resources  
5 to loads while maintaining reliable operation of the transmission system  
6 according to good utility practice.

7 2. "Electric distribution service" means distributing electricity to  
8 retail electric customers through the use of electric distribution  
9 facilities.

10 3. "Electric generation service" means providing electricity for sale  
11 to retail electric customers but excluding electric distribution or  
12 transmission services.

13 4. "Electric transmission service" means transmitting electricity to  
14 retail electric customers or to electric distribution facilities so  
15 classified by the federal energy regulatory commission or, to the extent  
16 permitted by law, so classified by the Arizona corporation commission.

17 5. "Other services" includes metering, meter reading services, billing  
18 and collecting services.

19 6. "Retail electric customer" means a person who purchases electricity  
20 for that person's own use, including use in that person's trade or business  
21 and not for resale, redistribution or retransmission.

22 Sec. 4. Section 42-5064, Arizona Revised Statutes, is amended to read:  
23 **42-5064. Telecommunications classification; definitions**

24 A. The telecommunications classification is comprised of the business  
25 of providing intrastate telecommunications services. The telecommunications  
26 classification does not include:

27 1. Sales of intrastate telecommunications services by a cable  
28 television system as defined in section 9-505 or by a microwave television  
29 transmission system that transmits television programming to multiple  
30 subscribers and that is operated pursuant to 47 Code of Federal Regulations  
31 parts 21 and 74.

32 2. Sales of internet access services to the person's subscribers and  
33 customers.

34 B. The tax base for the telecommunications classification is the gross  
35 proceeds of sales or gross income derived from the business, including the  
36 gross income derived from tolls, subscriptions and services on behalf of  
37 subscribers or from the publication of a directory of the names of  
38 subscribers. However, the gross proceeds of sales or gross income derived  
39 from the following shall be deducted from the tax base:

40 1. Sales of intrastate telecommunications services to:

41 (a) Other persons engaged in businesses classified under the  
42 telecommunications classification for use in such business.

43 (b) A direct broadcast satellite television or data transmission  
44 service that operates pursuant to 47 Code of Federal Regulations parts 25 and  
45 100 for use in its direct broadcast satellite television or data transmission

1 operation by a facility described in section 42-5061, subsection B, paragraph  
2 16, subdivision (b).

3 2. End user common line charges established by federal communications  
4 commission regulations (47 Code of Federal Regulations section 69.104(a)).

5 3. Carrier access charges established by federal communications  
6 commission regulations (47 Code of Federal Regulations sections 69.105(a)  
7 through 69.118).

8 4. Sales of direct broadcast satellite television services pursuant to  
9 47 Code of Federal Regulations parts 25 and 100 by a direct broadcast  
10 satellite television service that operates pursuant to 47 Code of Federal  
11 Regulations parts 25 and 100.

12 5. Telecommunications services purchased with a prepaid calling card,  
13 or a prepaid authorization number for telecommunications services, that is  
14 taxable under section 42-5061.

15 6. TELECOMMUNICATIONS SERVICES SOLD TO A STATE UNIVERSITY UNDER THE  
16 JURISDICTION OF THE ARIZONA BOARD OF REGENTS.

17 C. A person that is engaged in a transient lodging business subject to  
18 taxation under section 42-5070 and that provides telephone, fax or internet  
19 access services to its customers at an additional charge, which is separately  
20 stated on the customer invoice, is considered to be engaged in business  
21 subject to taxation under this section for the purposes of taxing the gross  
22 proceeds of sales or gross income derived from providing those services.

23 D. The gross proceeds of sales or gross income derived from a bundled  
24 transaction of services that are taxable pursuant to section 42-5023 are  
25 subject to the following:

26 1. A telecommunications service provider who can reasonably identify  
27 the portion of the sales price of the bundled transaction derived from  
28 charges for nontaxable services is subject to tax only on the gross proceeds  
29 of sales or gross income derived from the taxable services. For the purposes  
30 of this section, the telecommunications service provider may elect to  
31 reasonably identify the portion of the sales price of the bundled transaction  
32 derived from charges for nontaxable services by using allocation percentages  
33 derived from the telecommunications service provider's entire service area,  
34 including territories outside of this state. On request, the department may  
35 require the telecommunications service provider to provide this allocation  
36 information. The reasonableness of the allocation is subject to audit by the  
37 department.

38 2. Notwithstanding sections 42-1118, 42-1120 and 42-1121, the  
39 telecommunications service provider shall waive the right to file a claim for  
40 a refund of taxes paid on the bundled transaction if the taxes paid are based  
41 on the allocation percentage the telecommunications service provider had  
42 determined to be reasonable at the beginning of the tax period at issue.

43 3. The burden of proof is on the telecommunications service provider  
44 to establish that the gross proceeds of sales or gross income is derived from  
45 charges for nontaxable services.

1 E. For the purposes of this section:

2 1. "Bundled transaction" means a sale of multiple services in which  
3 both of the following apply:

4 (a) The sale consists of both taxable and nontaxable services.

5 (b) The telecommunications service provider charges a customer one  
6 sales price for all services that are sold instead of separately charging for  
7 each individual service.

8 2. "Internet" means the computer and telecommunications facilities  
9 that comprise the interconnected worldwide network of networks that employ  
10 the transmission control protocol or internet protocol, or any predecessor or  
11 successor protocol, to communicate information of all kinds by wire or radio.

12 3. "Internet access" means a service that enables users to access  
13 content, information, electronic mail or other services over the  
14 internet. Internet access does not include telecommunications services  
15 provided by a common carrier.

16 4. "Intrastate telecommunications services" means transmitting signs,  
17 signals, writings, images, sounds, messages, data or other information of any  
18 nature by wire, radio waves, light waves or other electromagnetic means if  
19 the information transmitted originates and terminates in this state.

20 Sec. 5. Section 42-5066, Arizona Revised Statutes, is amended to read:

21 42-5066. Job printing classification

22 A. The job printing classification is comprised of the business of job  
23 printing, engraving, embossing and copying.

24 B. The tax base for the job printing classification is the gross  
25 proceeds of sales or gross income derived from the business, but the gross  
26 proceeds of sales or gross income derived from the following shall be  
27 deducted from the tax base:

28 1. Sales to a person in this state who has a transaction privilege tax  
29 license issued in this state, and who does either of the following:

30 (a) Resells the job printing, engraving, embossing or copying.

31 (b) Distributes such printing, engraving, embossing or copying without  
32 consideration in connection with the publication of a newspaper or magazine.

33 2. Sales of job printing, engraving, embossing and copying for use  
34 outside this state if the materials are shipped or delivered out of this  
35 state regardless of where title to the materials passes or their free on  
36 board point.

37 3. Sales of personal property to:

38 (a) Qualifying hospitals as defined in section 42-5001.

39 (b) A qualifying health care organization as defined in section  
40 42-5001 if the tangible personal property is used by the organization solely  
41 to provide health and medical related educational and charitable services.

42 4. Sales of postage and freight except that the amount deducted shall  
43 not exceed the actual postage and freight expense that is paid to the United  
44 States postal service or a commercial delivery service and that is separately

1 itemized by the taxpayer on the customer's invoice and in the taxpayer's  
2 records.

3 5. Sales to a motion picture production company that will use the job  
4 printing, engraving, embossing or copying directly in motion picture  
5 production. To qualify for this deduction, at the time of sale, the motion  
6 picture production company must present the job printer its certificate that  
7 is issued pursuant to section 42-5009, subsection H, and that establishes its  
8 qualifications for the deduction.

9 6. SALES TO A STATE UNIVERSITY UNDER THE JURISDICTION OF THE ARIZONA  
10 BOARD OF REGENTS.

11 Sec. 6. Section 42-5075, Arizona Revised Statutes, is amended to read:

12 42-5075. Prime contracting classification; exemptions;  
13 definitions

14 A. The prime contracting classification is comprised of the business  
15 of prime contracting and dealership of manufactured buildings. Sales for  
16 resale to another dealership of manufactured buildings are not subject to  
17 tax. Sales for resale do not include sales to a lessor of manufactured  
18 buildings. The sale of a used manufactured building is not taxable under  
19 this chapter. The proceeds from alteration and repairs to a used  
20 manufactured building are taxable under this section.

21 B. The tax base for the prime contracting classification is sixty-five  
22 per cent of the gross proceeds of sales or gross income derived from the  
23 business. The following amounts shall be deducted from the gross proceeds of  
24 sales or gross income before computing the tax base:

25 1. The sales price of land, which shall not exceed the fair market  
26 value.

27 2. Sales and installation of groundwater measuring devices required  
28 under section 45-604 and groundwater monitoring wells required by law,  
29 including monitoring wells installed for acquiring information for a permit  
30 required by law.

31 3. The sales price of furniture, furnishings, fixtures, appliances and  
32 attachments that are not incorporated as component parts of or attached to a  
33 manufactured building or the setup site. The sale of such items may be  
34 subject to the taxes imposed by article 1 of this chapter separately and  
35 distinctly from the sale of the manufactured building.

36 4. The gross proceeds of sales or gross income received from a  
37 contract entered into for the construction, alteration, repair, addition,  
38 subtraction, improvement, movement, wrecking or demolition of any building,  
39 highway, road, railroad, excavation, manufactured building or other  
40 structure, project, development or improvement located in a military reuse  
41 zone for providing aviation or aerospace services or for a manufacturer,  
42 assembler or fabricator of aviation or aerospace products within an active  
43 military reuse zone after the zone is initially established or renewed under  
44 section 41-1531. To be eligible to qualify for this deduction, before

1 beginning work under the contract, the prime contractor must have applied for  
2 a letter of qualification from the department of revenue.

3 5. The gross proceeds of sales or gross income derived from a contract  
4 to construct a qualified environmental technology manufacturing, producing or  
5 processing facility, as described in section 41-1514.02, and from subsequent  
6 construction and installation contracts that begin within ten years after the  
7 start of initial construction. To qualify for this deduction, before  
8 beginning work under the contract, the prime contractor must obtain a letter  
9 of qualification from the department of revenue. This paragraph shall apply  
10 for ten full consecutive calendar or fiscal years after the start of initial  
11 construction.

12 6. The gross proceeds of sales or gross income from a contract to  
13 provide for one or more of the following actions, or a contract for site  
14 preparation, constructing, furnishing or installing machinery, equipment or  
15 other tangible personal property, including structures necessary to protect  
16 exempt incorporated materials or installed machinery or equipment, and  
17 tangible personal property incorporated into the project, to perform one or  
18 more of the following actions in response to a release or suspected release  
19 of a hazardous substance, pollutant or contaminant from a facility to the  
20 environment, unless the release was authorized by a permit issued by a  
21 governmental authority:

22 (a) Actions to monitor, assess and evaluate such a release or a  
23 suspected release.

24 (b) Excavation, removal and transportation of contaminated soil and  
25 its treatment or disposal.

26 (c) Treatment of contaminated soil by vapor extraction, chemical or  
27 physical stabilization, soil washing or biological treatment to reduce the  
28 concentration, toxicity or mobility of a contaminant.

29 (d) Pumping and treatment or in situ treatment of contaminated  
30 groundwater or surface water to reduce the concentration or toxicity of a  
31 contaminant.

32 (e) The installation of structures, such as cutoff walls or caps, to  
33 contain contaminants present in groundwater or soil and prevent them from  
34 reaching a location where they could threaten human health or welfare or the  
35 environment.

36 This paragraph does not include asbestos removal or the construction or use  
37 of ancillary structures such as maintenance sheds, offices or storage  
38 facilities for unattached equipment, pollution control equipment, facilities  
39 or other control items required or to be used by a person to prevent or  
40 control contamination before it reaches the environment.

41 7. The gross proceeds of sales or gross income that is derived from a  
42 contract entered into for the installation, assembly, repair or maintenance  
43 of machinery, equipment or other tangible personal property that is deducted  
44 from the tax base of the retail classification pursuant to section 42-5061,  
45 subsection B, or that is exempt from use tax pursuant to section 42-5159,

1 subsection B, and that does not become a permanent attachment to a building,  
2 highway, road, railroad, excavation or manufactured building or other  
3 structure, project, development or improvement. If the ownership of the  
4 realty is separate from the ownership of the machinery, equipment or tangible  
5 personal property, the determination as to permanent attachment shall be made  
6 as if the ownership were the same. The deduction provided in this paragraph  
7 does not include gross proceeds of sales or gross income from that portion of  
8 any contracting activity which consists of the development of, or  
9 modification to, real property in order to facilitate the installation,  
10 assembly, repair, maintenance or removal of machinery, equipment or other  
11 tangible personal property that is deducted from the tax base of the retail  
12 classification pursuant to section 42-5061, subsection B or that is exempt  
13 from use tax pursuant to section 42-5159, subsection B. For the purposes of  
14 this paragraph, "permanent attachment" means at least one of the following:

15 (a) To be incorporated into real property.

16 (b) To become so affixed to real property that it becomes a part of  
17 the real property.

18 (c) To be so attached to real property that removal would cause  
19 substantial damage to the real property from which it is removed.

20 8. Through December 31, 2009, the gross proceeds of sales or gross  
21 income received from a contract for constructing any lake facility  
22 development in a commercial enhancement reuse district that is designated  
23 pursuant to section 9-499.08 if the prime contractor maintains the following  
24 records in a form satisfactory to the department and to the city or town in  
25 which the property is located:

26 (a) The certificate of qualification of the lake facility development  
27 issued by the city or town pursuant to section 9-499.08, subsection D.

28 (b) All state and local transaction privilege tax returns for the  
29 period of time during which the prime contractor received gross proceeds of  
30 sales or gross income from a contract to construct a lake facility  
31 development in a designated commercial enhancement reuse district, showing  
32 the amount exempted from state and local taxation.

33 (c) Any other information that the department considers to be  
34 necessary.

35 9. The gross proceeds of sales or gross income attributable to the  
36 purchase of machinery, equipment or other tangible personal property that is  
37 exempt from or deductible from transaction privilege and use tax under:

38 (a) Section 42-5061, subsection A, paragraph 25 or 29.

39 (b) Section 42-5061, subsection B.

40 (c) Section 42-5159, subsection A, paragraph 13, subdivision (a), (b),  
41 (c), (d), (e), (f), (i), (j) or (l).

42 (d) Section 42-5159, subsection B.

43 10. The gross proceeds of sales or gross income received from a  
44 contract for the construction of an environmentally controlled facility for



1 the raising of poultry for the production of eggs and the sorting, cooling  
2 and packaging of eggs.

3 11. The gross proceeds of sales or gross income that is derived from a  
4 contract entered into with a person who is engaged in the commercial  
5 production of livestock, livestock products or agricultural, horticultural,  
6 viticultural or floricultural crops or products in this state for the  
7 construction, alteration, repair, improvement, movement, wrecking or  
8 demolition or addition to or subtraction from any building, highway, road,  
9 excavation, manufactured building or other structure, project, development or  
10 improvement used directly and primarily to prevent, monitor, control or  
11 reduce air, water or land pollution.

12 12. The gross proceeds of sales or gross income that is derived from  
13 the installation, assembly, repair or maintenance of clean rooms that are  
14 deducted from the tax base of the retail classification pursuant to section  
15 42-5061, subsection B, paragraph 17.

16 13. For taxable periods beginning from and after June 30, 2001, the  
17 gross proceeds of sales or gross income derived from a contract entered into  
18 for the construction of a residential apartment housing facility that  
19 qualifies for a federal housing subsidy for low income persons over sixty-two  
20 years of age and that is owned by a nonprofit charitable organization that  
21 has qualified under section 501(c)(3) of the internal revenue code.

22 14. For taxable periods beginning from and after December 31, 1996 and  
23 ending before January 1, 2011, the gross proceeds of sales or gross income  
24 derived from a contract to provide and install a solar energy device. The  
25 contractor shall register with the department as a solar energy contractor.  
26 By registering, the contractor acknowledges that it will make its books and  
27 records relating to sales of solar energy devices available to the department  
28 for examination.

29 15. The gross proceeds of sales or gross income derived from a contract  
30 entered into for the construction of a launch site, as defined in 14 Code of  
31 Federal Regulations section 401.5.

32 16. The gross proceeds of sales or gross income derived from a contract  
33 entered into for the construction of a domestic violence shelter that is  
34 owned and operated by a nonprofit charitable organization that has qualified  
35 under section 501(c)(3) of the internal revenue code.

36 17. The gross proceeds of sales or gross income derived from contracts  
37 to perform postconstruction treatment of real property for termite and  
38 general pest control, including wood destroying organisms.

39 18. The gross proceeds of sales or gross income received from contracts  
40 entered into before July 1, 2006 for constructing a state university research  
41 infrastructure project if the project has been reviewed by the joint  
42 committee on capital review before the university enters into the  
43 construction contract for the project. For the purposes of this paragraph,  
44 "research infrastructure" has the same meaning prescribed in section 15-1670.

1        19. The gross proceeds of sales or gross income received from a  
2 contract for the construction of any building, or other structure, project,  
3 development or improvement owned by a qualified business under section  
4 41-1516 for harvesting or the initial processing of qualifying forest  
5 products removed from qualifying projects as defined in section 41-1516 if  
6 actual construction begins before January 1, 2010. To qualify for this  
7 deduction, the prime contractor must obtain a letter of qualification from  
8 the department of commerce before beginning work under the contract.

9        20. The gross proceeds of sales or gross income received from a  
10 contract for the construction of any building or other structure associated  
11 with motion picture production in this state. To qualify for the deduction,  
12 at the time the contract is entered into the motion picture production  
13 company must present to the prime contractor its certificate that is issued  
14 pursuant to section 42-5009, subsection H and that establishes its  
15 qualification for the deduction.

16        21. Any amount of the gross proceeds of sales or gross income from a  
17 contract that constitutes development or impact fees paid to the state or a  
18 local government to offset governmental costs of providing public  
19 infrastructure, public safety and other public services to a development.

20        22. THE GROSS PROCEEDS OF SALES OR GROSS INCOME RECEIVED FROM A  
21 CONTRACT FOR THE CONSTRUCTION OF ANY BUILDING OR OTHER STRUCTURE, PROJECT,  
22 DEVELOPMENT OR IMPROVEMENT FOR A STATE UNIVERSITY UNDER THE JURISDICTION OF  
23 THE ARIZONA BOARD OF REGENTS.

24        C. Entitlement to the deduction pursuant to subsection B, paragraph 7  
25 of this section is subject to the following provisions:

26        1. A prime contractor may establish entitlement to the deduction by  
27 both:

28        (a) Marking the invoice for the transaction to indicate that the gross  
29 proceeds of sales or gross income derived from the transaction was deducted  
30 from the base.

31        (b) Obtaining a certificate executed by the purchaser indicating the  
32 name and address of the purchaser, the precise nature of the business of the  
33 purchaser, the purpose for which the purchase was made, the necessary facts  
34 to establish the deductibility of the property under section 42-5061,  
35 subsection B, and a certification that the person executing the certificate  
36 is authorized to do so on behalf of the purchaser. The certificate may be  
37 disregarded if the prime contractor has reason to believe that the  
38 information contained in the certificate is not accurate or complete.

39        2. A person who does not comply with paragraph 1 of this subsection  
40 may establish entitlement to the deduction by presenting facts necessary to  
41 support the entitlement, but the burden of proof is on that person.

42        3. The department may prescribe a form for the certificate described  
43 in paragraph 1, subdivision (b) of this subsection. The department may also  
44 adopt rules that describe the transactions with respect to which a person is  
45 not entitled to rely solely on the information contained in the certificate

1 provided in paragraph 1, subdivision (b) of this subsection but must instead  
2 obtain such additional information as required in order to be entitled to the  
3 deduction.

4 4. If a prime contractor is entitled to a deduction by complying with  
5 paragraph 1 of this subsection, the department may require the purchaser who  
6 caused the execution of the certificate to establish the accuracy and  
7 completeness of the information required to be contained in the certificate  
8 which would entitle the prime contractor to the deduction. If the purchaser  
9 cannot establish the accuracy and completeness of the information, the  
10 purchaser is liable in an amount equal to any tax, penalty and interest which  
11 the prime contractor would have been required to pay under article 1 of this  
12 chapter if the prime contractor had not complied with paragraph 1 of this  
13 subsection. Payment of the amount under this paragraph exempts the purchaser  
14 from liability for any tax imposed under article 4 of this chapter. The  
15 amount shall be treated as a transaction privilege tax to the purchaser and  
16 as tax revenues collected from the prime contractor in order to designate the  
17 distribution base for purposes of section 42-5029.

18 D. Subcontractors or others who perform services in respect to any  
19 improvement, building, highway, road, railroad, excavation, manufactured  
20 building or other structure, project, development or improvement are not  
21 subject to tax if they can demonstrate that the job was within the control of  
22 a prime contractor or contractors or a dealership of manufactured buildings  
23 and that the prime contractor or dealership is liable for the tax on the  
24 gross income, gross proceeds of sales or gross receipts attributable to the  
25 job and from which the subcontractors or others were paid.

26 E. Amounts received by a contractor for a project are excluded from  
27 the contractor's gross proceeds of sales or gross income derived from the  
28 business if the person who hired the contractor executes and provides a  
29 certificate to the contractor stating that the person providing the  
30 certificate is a prime contractor and is liable for the tax under article 1  
31 of this chapter. The department shall prescribe the form of the certificate.  
32 If the contractor has reason to believe that the information contained on the  
33 certificate is erroneous or incomplete, the department may disregard the  
34 certificate. If the person who provides the certificate is not liable for  
35 the tax as a prime contractor, that person is nevertheless deemed to be the  
36 prime contractor in lieu of the contractor and is subject to the tax under  
37 this section on the gross receipts or gross proceeds received by the  
38 contractor.

39 F. Every person engaging or continuing in this state in the business  
40 of prime contracting or dealership of manufactured buildings shall present to  
41 the purchaser of such prime contracting or manufactured building a written  
42 receipt of the gross income or gross proceeds of sales from such activity and  
43 shall separately state the taxes to be paid pursuant to this section.

44 G. For the purposes of section 42-5032.01, the department shall  
45 separately account for revenues collected under the prime contracting

1 classification from any prime contractor engaged in the preparation or  
2 construction of a multipurpose facility, and related infrastructure, that is  
3 owned, operated or leased by the tourism and sports authority pursuant to  
4 title 5, chapter 8.

5 H. The gross proceeds of sales or gross income derived from a contract  
6 for lawn maintenance services are not subject to tax under this section if  
7 the contract does not include landscaping activities. Lawn maintenance  
8 service is a service pursuant to section 42-5061, subsection A, paragraph 1,  
9 and includes lawn mowing and edging, weeding, repairing sprinkler heads or  
10 drip irrigation heads, seasonal replacement of flowers, refreshing gravel,  
11 lawn de-thatching, seeding winter lawns, leaf and debris collection and  
12 removal, tree or shrub pruning or clipping, garden and gravel raking and  
13 applying pesticides, as defined in section 3-361, and fertilizer materials,  
14 as defined in section 3-262.

15 I. The gross proceeds of sales or gross income derived from  
16 landscaping activities are subject to tax under this section. Landscaping  
17 includes installing lawns, grading or leveling ground, installing gravel or  
18 boulders, planting trees and other plants, felling trees, removing or  
19 mulching tree stumps, removing other imbedded plants, building or modifying  
20 irrigation berms, repairing sprinkler or watering systems, installing  
21 railroad ties and installing underground sprinkler or watering systems.

22 J. The portion of gross proceeds of sales or gross income attributable  
23 to the actual direct costs of providing architectural or engineering services  
24 that are incorporated in a contract is not subject to tax under this section.  
25 For the purposes of this subsection, "direct costs" means the portion of the  
26 actual costs that are directly expended in providing architectural or  
27 engineering services.

28 K. Operating a landfill or a solid waste disposal facility is not  
29 subject to taxation under this section, including filling, compacting and  
30 creating vehicle access to and from cell sites within the landfill.  
31 Constructing roads to a landfill or solid waste disposal facility and  
32 constructing cells within a landfill or solid waste disposal facility may be  
33 deemed prime contracting under this section.

34 L. The following apply to manufactured buildings:

35 1. For sales in this state where the dealership of manufactured  
36 buildings contracts to deliver the building to a setup site or to perform the  
37 setup in this state, the taxable situs is the setup site.

38 2. For sales in this state where the dealership of manufactured  
39 buildings does not contract to deliver the building to a setup site or does  
40 not perform the setup, the taxable situs is the location of the dealership  
41 where the building is delivered to the buyer.

42 3. For sales in this state where the dealership of manufactured  
43 buildings contracts to deliver the building to a setup site that is outside  
44 this state, the situs is outside this state and the transaction is excluded  
45 from tax.

1 M. Notwithstanding subsection N, paragraph 8 of this section, a person  
2 owning real property who enters into a contract for sale of the real  
3 property, who is responsible to the new owner of the property for  
4 modifications made to the property in the period subsequent to the transfer  
5 of title and who receives a consideration for the modifications is considered  
6 a prime contractor solely for purposes of taxing the gross proceeds of sale  
7 or gross income received for the modifications made subsequent to the  
8 transfer of title. The original owner's gross proceeds of sale or gross  
9 income received for the modifications shall be determined according to the  
10 following methodology:

11 1. If any part of the contract for sale of the property specifies  
12 amounts to be paid to the original owner for the modifications to be made in  
13 the period subsequent to the transfer of title, the amounts are included in  
14 the original owner's gross proceeds of sale or gross income under this  
15 section. Proceeds from the sale of the property THAT ARE received after  
16 transfer of title AND that are unrelated to the modifications made subsequent  
17 to the transfer of title ~~will~~ ARE not ~~be~~ considered gross proceeds of sale or  
18 gross income from the modifications.

19 2. If the original owner enters into an agreement separate from the  
20 contract for sale of the real property providing for amounts to be paid to  
21 the original owner for the modifications to be made in the period subsequent  
22 to the transfer of title to the property, the amounts are included in the  
23 original owner's gross proceeds of sale or gross income received for the  
24 modifications made subsequent to the transfer of title.

25 3. If the original owner is responsible to the new owner for  
26 modifications made to the property in the period subsequent to the transfer  
27 of title and derives any gross proceeds of sale or gross income from the  
28 project subsequent to the transfer of title other than a delayed disbursement  
29 from escrow unrelated to the modifications, it is presumed that the amounts  
30 are received for the modifications made subsequent to the transfer of title  
31 unless the contrary is established by the owner through its books, records  
32 and papers kept in the regular course of business.

33 4. The tax base of the original owner is computed in the same manner  
34 as a prime contractor under this section.

35 N. For the purposes of this section:

36 1. "Contracting" means engaging in business as a contractor.

37 2. "Contractor" is synonymous with the term "builder" and means any  
38 person or organization that undertakes to or offers to undertake to, or  
39 purports to have the capacity to undertake to, or submits a bid to, or does  
40 personally or by or through others, modify any building, highway, road,  
41 railroad, excavation, manufactured building or other structure, project,  
42 development or improvement, or to do any part of such a project, including  
43 the erection of scaffolding or other structure or works in connection with  
44 such a project, and includes subcontractors and specialty contractors. For  
45 all purposes of taxation or deduction, this definition shall govern without

1 regard to whether or not such contractor is acting in fulfillment of a  
2 contract.

3 3. "Dealership of manufactured buildings" means a dealer who either:

4 (a) Is licensed pursuant to title 41, chapter 16 and who sells  
5 manufactured buildings to the final consumer.

6 (b) Supervises, performs or coordinates the excavation and completion  
7 of site improvements, setup or moving of a manufactured building including  
8 the contracting, if any, with any subcontractor or specialty contractor for  
9 the completion of the contract.

10 4. "Manufactured building" means a manufactured home, mobile home or  
11 factory-built building, as defined in section 41-2142.

12 5. "Modification" means construction, alteration, repair, addition,  
13 subtraction, improvement, movement, wreckage or demolition.

14 6. "Modify" means to construct, alter, repair, add to, subtract from,  
15 improve, move, wreck or demolish.

16 7. "Prime contracting" means engaging in business as a prime  
17 contractor.

18 8. "Prime contractor" means a contractor who supervises, performs or  
19 coordinates the modification of any building, highway, road, railroad,  
20 excavation, manufactured building or other structure, project, development or  
21 improvement including the contracting, if any, with any subcontractors or  
22 specialty contractors and who is responsible for the completion of the  
23 contract. Except as provided in subsections E and M of this section, a  
24 person who owns real property, who engages one or more contractors to modify  
25 that real property and who does not itself modify that real property is not a  
26 prime contractor within the meaning of this paragraph regardless of the  
27 existence of a contract for sale or the subsequent sale of that real  
28 property.

29 9. "Sale of a used manufactured building" does not include a lease of  
30 a used manufactured building.

31 Sec. 7. Section 42-5159, Arizona Revised Statutes, is amended to read:  
32 42-5159. Exemptions

33 A. The tax levied by this article does not apply to the storage, use  
34 or consumption in this state of the following described tangible personal  
35 property:

36 1. Tangible personal property sold in this state, the gross receipts  
37 from the sale of which are included in the measure of the tax imposed by  
38 articles 1 and 2 of this chapter.

39 2. Tangible personal property the sale or use of which has already  
40 been subjected to an excise tax at a rate equal to or exceeding the tax  
41 imposed by this article under the laws of another state of the United States.  
42 If the excise tax imposed by the other state is at a rate less than the tax  
43 imposed by this article, the tax imposed by this article is reduced by the  
44 amount of the tax already imposed by the other state.

1           3. Tangible personal property, the storage, use or consumption of  
2 which the constitution or laws of the United States prohibit this state from  
3 taxing or to the extent that the rate or imposition of tax is  
4 unconstitutional under the laws of the United States.

5           4. Tangible personal property which directly enters into and becomes  
6 an ingredient or component part of any manufactured, fabricated or processed  
7 article, substance or commodity for sale in the regular course of business.

8           5. Motor vehicle fuel and use fuel, the sales, distribution or use of  
9 which in this state is subject to the tax imposed under title 28, chapter 16,  
10 article 1, use fuel which is sold to or used by a person holding a valid  
11 single trip use fuel tax permit issued under section 28-5739, aviation fuel,  
12 the sales, distribution or use of which in this state is subject to the tax  
13 imposed under section 28-8344, and jet fuel, the sales, distribution or use  
14 of which in this state is subject to the tax imposed under article 8 of this  
15 chapter.

16           6. Tangible personal property brought into this state by an individual  
17 who was a nonresident at the time the property was purchased for storage, use  
18 or consumption by the individual if the first actual use or consumption of  
19 the property was outside this state, unless the property is used in  
20 conducting a business in this state.

21           7. Purchases of implants used as growth promotants and injectable  
22 medicines, not already exempt under paragraph 16 of this subsection, for  
23 livestock and poultry owned by, or in possession of, persons who are engaged  
24 in producing livestock, poultry, or livestock or poultry products, or who are  
25 engaged in feeding livestock or poultry commercially. For the purposes of  
26 this paragraph, "poultry" includes ratites.

27           8. Livestock, poultry, supplies, feed, salts, vitamins and other  
28 additives for use or consumption in the businesses of farming, ranching and  
29 feeding livestock or poultry, not including fertilizers, herbicides and  
30 insecticides. For the purposes of this paragraph, "poultry" includes  
31 ratites.

32           9. Seeds, seedlings, roots, bulbs, cuttings and other propagative  
33 material for use in commercially producing agricultural, horticultural,  
34 viticultural or floricultural crops in this state.

35           10. Tangible personal property not exceeding two hundred dollars in any  
36 one month purchased by an individual at retail outside the continental limits  
37 of the United States for the individual's own personal use and enjoyment.

38           11. Advertising supplements which are intended for sale with newspapers  
39 published in this state and which have already been subjected to an excise  
40 tax under the laws of another state in the United States which equals or  
41 exceeds the tax imposed by this article.

42           12. Materials that are purchased by or for publicly funded libraries  
43 including school district libraries, charter school libraries, community  
44 college libraries, state university libraries or federal, state, county or  
45 municipal libraries for use by the public as follows:

1 (a) Printed or photographic materials, beginning August 7, 1985.

2 (b) Electronic or digital media materials, beginning July 17, 1994.

3 13. Tangible personal property purchased by:

4 (a) A hospital organized and operated exclusively for charitable  
5 purposes, no part of the net earnings of which inures to the benefit of any  
6 private shareholder or individual.

7 (b) A hospital operated by this state or a political subdivision of  
8 this state.

9 (c) A licensed nursing care institution or a licensed residential care  
10 institution or a residential care facility operated in conjunction with a  
11 licensed nursing care institution or a licensed kidney dialysis center, which  
12 provides medical services, nursing services or health related services and is  
13 not used or held for profit.

14 (d) A qualifying health care organization, as defined in section  
15 42-5001, if the tangible personal property is used by the organization solely  
16 to provide health and medical related educational and charitable services.

17 (e) A qualifying health care organization as defined in section  
18 42-5001 if the organization is dedicated to providing educational,  
19 therapeutic, rehabilitative and family medical education training for blind,  
20 visually impaired and multihandicapped children from the time of birth to age  
21 twenty-one.

22 (f) A nonprofit charitable organization that has qualified under  
23 section 501(c)(3) of the United States internal revenue code and that engages  
24 in and uses such property exclusively in programs for mentally or physically  
25 handicapped persons if the programs are exclusively for training, job  
26 placement, rehabilitation or testing.

27 (g) A person that is subject to tax under article 1 of this chapter by  
28 reason of being engaged in business classified under the prime contracting  
29 classification under section 42-5075, or a subcontractor working under the  
30 control of a prime contractor, if the tangible personal property is any of  
31 the following:

32 (i) Incorporated or fabricated by the contractor into a structure,  
33 project, development or improvement in fulfillment of a contract.

34 (ii) Used in environmental response or remediation activities under  
35 section 42-5075, subsection B, paragraph 6.

36 (iii) Incorporated or fabricated by the person into any lake facility  
37 development in a commercial enhancement reuse district under conditions  
38 prescribed for the deduction allowed by section 42-5075, subsection B,  
39 paragraph 8.

40 (h) A nonprofit charitable organization that has qualified under  
41 section 501(c)(3) of the internal revenue code if the property is purchased  
42 from the parent or an affiliate organization that is located outside this  
43 state.

44 (i) A qualifying community health center as defined in section  
45 42-5001.



(j) A nonprofit charitable organization that has qualified under section 501(c)(3) of the internal revenue code and that regularly serves meals to the needy and indigent on a continuing basis at no cost.

(k) A person engaged in business under the transient lodging classification if the property is a personal hygiene item or articles used by human beings for food, drink or condiment, except alcoholic beverages, which are furnished without additional charge to and intended to be consumed by the transient during the transient's occupancy.

(l) For taxable periods beginning from and after June 30, 2001, a nonprofit charitable organization that has qualified under section 501(c)(3) of the internal revenue code and that provides residential apartment housing for low income persons over sixty-two years of age in a facility that qualifies for a federal housing subsidy, if the tangible personal property is used by the organization solely to provide residential apartment housing for low income persons over sixty-two years of age in a facility that qualifies for a federal housing subsidy.

(m) A STATE UNIVERSITY UNDER THE JURISDICTION OF THE ARIZONA BOARD OF REGENTS.

14. Commodities, as defined by title 7 United States Code section 2, that are consigned for resale in a warehouse in this state in or from which the commodity is deliverable on a contract for future delivery subject to the rules of a commodity market regulated by the United States commodity futures trading commission.

15. Tangible personal property sold by:

(a) Any nonprofit organization organized and operated exclusively for charitable purposes and recognized by the United States internal revenue service under section 501(c)(3) of the internal revenue code.

(b) A nonprofit organization that is exempt from taxation under section 501(c)(3) or 501(c)(6) of the internal revenue code if the organization is associated with a major league baseball team or a national touring professional golfing association and no part of the organization's net earnings inures to the benefit of any private shareholder or individual.

(c) A nonprofit organization that is exempt from taxation under section 501(c)(3), 501(c)(4), 501(c)(6), 501(c)(7) or 501(c)(8) of the internal revenue code if the organization sponsors or operates a rodeo featuring primarily farm and ranch animals and no part of the organization's net earnings inures to the benefit of any private shareholder or individual.

16. Drugs and medical oxygen, including delivery hose, mask or tent, regulator and tank, on the prescription of a member of the medical, dental or veterinarian profession who is licensed by law to administer such substances.

17. Prosthetic appliances, as defined in section 23-501, prescribed or recommended by a person who is licensed, registered or otherwise professionally credentialed as a physician, dentist, podiatrist, chiropractor, naturopath, homeopath, nurse or optometrist.

- 1 18. Prescription eyeglasses and contact lenses.
- 2 19. Insulin, insulin syringes and glucose test strips.
- 3 20. Hearing aids as defined in section 36-1901.
- 4 21. Durable medical equipment which has a centers for medicare and  
5 medicaid services common procedure code, is designated reimbursable by  
6 medicare, is prescribed by a person who is licensed under title 32, chapter  
7 7, 13, 17 or 29, can withstand repeated use, is primarily and customarily  
8 used to serve a medical purpose, is generally not useful to a person in the  
9 absence of illness or injury and is appropriate for use in the home.
- 10 22. Food, as provided in and subject to the conditions of article 3 of  
11 this chapter and section 42-5074.
- 12 23. Items purchased with United States department of agriculture food  
13 stamp coupons issued under the food stamp act of 1977 (P.L. 95-113; 91 Stat.  
14 958) or food instruments issued under section 17 of the child nutrition act  
15 (P.L. 95-627; 92 Stat. 3603; P.L. 99-661, section 4302; 42 United States Code  
16 section 1786).
- 17 24. Food and drink provided without monetary charge by a taxpayer which  
18 is subject to section 42-5074 to its employees for their own consumption on  
19 the premises during the employees' hours of employment.
- 20 25. Tangible personal property that is used or consumed in a business  
21 subject to section 42-5074 for human food, drink or condiment, whether  
22 simple, mixed or compounded.
- 23 26. Food, drink or condiment and accessory tangible personal property  
24 that are acquired for use by or provided to a school district or charter  
25 school if they are to be either served or prepared and served to persons for  
26 consumption on the premises of a public school in a school district during  
27 school hours.
- 28 27. Lottery tickets or shares purchased pursuant to title 5, chapter 5,  
29 article 1.
- 30 28. Textbooks, sold by a bookstore, that are required by any state  
31 university or community college.
- 32 29. Magazines, other periodicals or other publications produced by this  
33 state to encourage tourist travel.
- 34 30. Paper machine clothing, such as forming fabrics and dryer felts,  
35 purchased by a paper manufacturer and directly used or consumed in paper  
36 manufacturing.
- 37 31. Coal, petroleum, coke, natural gas, virgin fuel oil and electricity  
38 purchased by a qualified environmental technology manufacturer, producer or  
39 processor as defined in section 41-1514.02 and directly used or consumed in  
40 the generation or provision of on-site power or energy solely for  
41 environmental technology manufacturing, producing or processing or  
42 environmental protection. This paragraph shall apply for fifteen full  
43 consecutive calendar or fiscal years from the date the first paper  
44 manufacturing machine is placed in service. In the case of an environmental  
45 technology manufacturer, producer or processor who does not manufacture

1 paper, the time period shall begin with the date the first manufacturing,  
2 processing or production equipment is placed in service.

3 32. Motor vehicles that are removed from inventory by a motor vehicle  
4 dealer as defined in section 28-4301 and that are provided to:

5 (a) Charitable or educational institutions that are exempt from  
6 taxation under section 501(c)(3) of the internal revenue code.

7 (b) Public educational institutions.

8 (c) State universities or affiliated organizations of a state  
9 university if no part of the organization's net earnings inures to the  
10 benefit of any private shareholder or individual.

11 33. Natural gas or liquefied petroleum gas used to propel a motor  
12 vehicle.

13 34. Machinery, equipment, technology or related supplies that are only  
14 useful to assist a person who is physically disabled as defined in section  
15 46-191, has a developmental disability as defined in section 36-551 or has a  
16 head injury as defined in section 41-3201 to be more independent and  
17 functional.

18 35. Liquid, solid or gaseous chemicals used in manufacturing,  
19 processing, fabricating, mining, refining, metallurgical operations, research  
20 and development and, beginning on January 1, 1999, printing, if using or  
21 consuming the chemicals, alone or as part of an integrated system of  
22 chemicals, involves direct contact with the materials from which the product  
23 is produced for the purpose of causing or permitting a chemical or physical  
24 change to occur in the materials as part of the production process. This  
25 paragraph does not include chemicals that are used or consumed in activities  
26 such as packaging, storage or transportation but does not affect any  
27 exemption for such chemicals that is otherwise provided by this section. For  
28 the purposes of this paragraph, "printing" means a commercial printing  
29 operation and includes job printing, engraving, embossing, copying and  
30 bookbinding.

31 36. Food, drink and condiment purchased for consumption within the  
32 premises of any prison, jail or other institution under the jurisdiction of  
33 the state department of corrections, the department of public safety, the  
34 department of juvenile corrections or a county sheriff.

35 37. A motor vehicle and any repair and replacement parts and tangible  
36 personal property becoming a part of such motor vehicle sold to a motor  
37 carrier who is subject to a fee prescribed in title 28, chapter 16, article 4  
38 and who is engaged in the business of leasing or renting such property.

39 38. Tangible personal property which is or directly enters into and  
40 becomes an ingredient or component part of cards used as prescription plan  
41 identification cards.

42 39. Overhead materials or other tangible personal property that is used  
43 in performing a contract between the United States government and a  
44 manufacturer, modifier, assembler or repairer, including property used in  
45 performing a subcontract with a government contractor who is a manufacturer,

1 modifier, assembler or repairer, to which title passes to the government  
2 under the terms of the contract or subcontract. For the purposes of this  
3 paragraph:

4 (a) "Overhead materials" means tangible personal property, the gross  
5 proceeds of sales or gross income derived from which would otherwise be  
6 included in the retail classification, and which are used or consumed in the  
7 performance of a contract, the cost of which is charged to an overhead  
8 expense account and allocated to various contracts based upon generally  
9 accepted accounting principles and consistent with government contract  
10 accounting standards.

11 (b) "Subcontract" means an agreement between a contractor and any  
12 person who is not an employee of the contractor for furnishing of supplies or  
13 services that, in whole or in part, are necessary to the performance of one  
14 or more government contracts, or under which any portion of the contractor's  
15 obligation under one or more government contracts is performed, undertaken or  
16 assumed, and that includes provisions causing title to overhead materials or  
17 other tangible personal property used in the performance of the subcontract  
18 to pass to the government or that includes provisions incorporating such  
19 title passing clauses in a government contract into the subcontract.

20 40. Through December 31, 1994, tangible personal property sold pursuant  
21 to a personal property liquidation transaction, as defined in section  
22 42-5061. From and after December 31, 1994, tangible personal property sold  
23 pursuant to a personal property liquidation transaction, as defined in  
24 section 42-5061, if the gross proceeds of the sales were included in the  
25 measure of the tax imposed by article 1 of this chapter or if the personal  
26 property liquidation was a casual activity or transaction.

27 41. Wireless telecommunications equipment that is held for sale or  
28 transfer to a customer as an inducement to enter into or continue a contract  
29 for telecommunications services that are taxable under section 42-5064.

30 42. Alternative fuel, as defined in section 1-215, purchased by a used  
31 oil fuel burner who has received a permit to burn used oil or used oil fuel  
32 under section 49-426 or 49-480.

33 43. Tangible personal property purchased by a commercial airline and  
34 consisting of food, beverages and condiments and accessories used for serving  
35 the food and beverages, if those items are to be provided without additional  
36 charge to passengers for consumption in flight. For the purposes of this  
37 paragraph, "commercial airline" means a person holding a federal certificate  
38 of public convenience and necessity or foreign air carrier permit for air  
39 transportation to transport persons, property or United States mail in  
40 intrastate, interstate or foreign commerce.

41 44. Alternative fuel vehicles if the vehicle was manufactured as a  
42 diesel fuel vehicle and converted to operate on alternative fuel and  
43 equipment that is installed in a conventional diesel fuel motor vehicle to  
44 convert the vehicle to operate on an alternative fuel, as defined in section  
45 1-215.

45. Gas diverted from a pipeline, by a person engaged in the business of:

(a) Operating a natural or artificial gas pipeline, and used or consumed for the sole purpose of fueling compressor equipment that pressurizes the pipeline.

(b) Converting natural gas into liquefied natural gas, and used or consumed for the sole purpose of fueling compressor equipment used in the conversion process.

46. Tangible personal property that is excluded, exempt or deductible from transaction privilege tax pursuant to section 42-5063.

47. Tangible personal property purchased to be incorporated or installed as part of environmental response or remediation activities under section 42-5075, subsection B, paragraph 6.

48. Tangible personal property sold by a nonprofit organization that is exempt from taxation under section 501(c)(6) of the internal revenue code if the organization produces, organizes or promotes cultural or civic related festivals or events and no part of the organization's net earnings inures to the benefit of any private shareholder or individual.

49. Prepared food, drink or condiment donated by a restaurant as classified in section 42-5074, subsection A to a nonprofit charitable organization that has qualified under section 501(c)(3) of the internal revenue code and that regularly serves meals to the needy and indigent on a continuing basis at no cost.

B. In addition to the exemptions allowed by subsection A of this section, the following categories of tangible personal property are also exempt:

1. Machinery, or equipment, used directly in manufacturing, processing, fabricating, job printing, refining or metallurgical operations. The terms "manufacturing", "processing", "fabricating", "job printing", "refining" and "metallurgical" as used in this paragraph refer to and include those operations commonly understood within their ordinary meaning. "Metallurgical operations" includes leaching, milling, precipitating, smelting and refining.

2. Machinery, or equipment, used directly in the process of extracting ores or minerals from the earth for commercial purposes, including equipment required to prepare the materials for extraction and handling, loading or transporting such extracted material to the surface. "Mining" includes underground, surface and open pit operations for extracting ores and minerals.

3. Tangible personal property sold to persons engaged in business classified under the telecommunications classification under section 42-5064 and consisting of central office switching equipment, switchboards, private branch exchange equipment, microwave radio equipment and carrier equipment including optical fiber, coaxial cable and other transmission media which are components of carrier systems.

1           4. Machinery, equipment or transmission lines used directly in  
2 producing or transmitting electrical power, but not including distribution.  
3 Transformers and control equipment used at transmission substation sites  
4 constitute equipment used in producing or transmitting electrical power.

5           5. Neat animals, horses, asses, sheep, ratites, swine or goats used or  
6 to be used as breeding or production stock, including sales of breedings or  
7 ownership shares in such animals used for breeding or production.

8           6. Pipes or valves four inches in diameter or larger used to transport  
9 oil, natural gas, artificial gas, water or coal slurry, including compressor  
10 units, regulators, machinery and equipment, fittings, seals and any other  
11 part that is used in operating the pipes or valves.

12           7. Aircraft, navigational and communication instruments and other  
13 accessories and related equipment sold to:

14           (a) A person holding a federal certificate of public convenience and  
15 necessity, a supplemental air carrier certificate under federal aviation  
16 regulations (14 Code of Federal Regulations part 121) or a foreign air  
17 carrier permit for air transportation for use as or in conjunction with or  
18 becoming a part of aircraft to be used to transport persons, property or  
19 United States mail in intrastate, interstate or foreign commerce.

20           (b) Any foreign government for use by such government outside of this  
21 state, or sold to persons who are not residents of this state and who will  
22 not use such property in this state other than in removing such property from  
23 this state.

24           8. Machinery, tools, equipment and related supplies used or consumed  
25 directly in repairing, remodeling or maintaining aircraft, aircraft engines  
26 or aircraft component parts by or on behalf of a certificated or licensed  
27 carrier of persons or property.

28           9. Rolling stock, rails, ties and signal control equipment used  
29 directly to transport persons or property.

30           10. Machinery or equipment used directly to drill for oil or gas or  
31 used directly in the process of extracting oil or gas from the earth for  
32 commercial purposes.

33           11. Buses or other urban mass transit vehicles which are used directly  
34 to transport persons or property for hire or pursuant to a governmentally  
35 adopted and controlled urban mass transportation program and which are sold  
36 to bus companies holding a federal certificate of convenience and necessity  
37 or operated by any city, town or other governmental entity or by any person  
38 contracting with such governmental entity as part of a governmentally adopted  
39 and controlled program to provide urban mass transportation.

40           12. Groundwater measuring devices required under section 45-604.

41           13. New machinery and equipment consisting of tractors, tractor-drawn  
42 implements, self-powered implements, machinery and equipment necessary for  
43 extracting milk, and machinery and equipment necessary for cooling milk and  
44 livestock, and drip irrigation lines not already exempt under paragraph 6 of  
45 this subsection and that are used for commercial production of agricultural,

horticultural, viticultural and floricultural crops and products in this state. For the purposes of this paragraph:

(a) "New machinery and equipment" means machinery or equipment which has never been sold at retail except pursuant to leases or rentals which do not total two years or more.

(b) "Self-powered implements" includes machinery and equipment that are electric-powered.

14. Machinery or equipment used in research and development. For the purposes of this paragraph, "research and development" means basic and applied research in the sciences and engineering, and designing, developing or testing prototypes, processes or new products, including research and development of computer software that is embedded in or an integral part of the prototype or new product or that is required for machinery or equipment otherwise exempt under this section to function effectively. Research and development do not include manufacturing quality control, routine consumer product testing, market research, sales promotion, sales service, research in social sciences or psychology, computer software research that is not included in the definition of research and development, or other nontechnological activities or technical services.

15. Machinery and equipment that are purchased by or on behalf of the owners of a soundstage complex and primarily used for motion picture, multimedia or interactive video production in the complex. This paragraph applies only if the initial construction of the soundstage complex begins after June 30, 1996 and before January 1, 2002 and the machinery and equipment are purchased before the expiration of five years after the start of initial construction. For the purposes of this paragraph:

(a) "Motion picture, multimedia or interactive video production" includes products for theatrical and television release, educational presentations, electronic retailing, documentaries, music videos, industrial films, CD-ROM, video game production, commercial advertising and television episode production and other genres that are introduced through developing technology.

(b) "Soundstage complex" means a facility of multiple stages including production offices, construction shops and related areas, prop and costume shops, storage areas, parking for production vehicles and areas that are leased to businesses that complement the production needs and orientation of the overall facility.

16. Tangible personal property that is used by either of the following to receive, store, convert, produce, generate, decode, encode, control or transmit telecommunications information:

(a) Any direct broadcast satellite television or data transmission service that operates pursuant to 47 Code of Federal Regulations parts 25 and 100.

(b) Any satellite television or data transmission facility, if both of the following conditions are met:

(i) Over two-thirds of the transmissions, measured in megabytes, transmitted by the facility during the test period were transmitted to or on behalf of one or more direct broadcast satellite television or data transmission services that operate pursuant to 47 Code of Federal Regulations parts 25 and 100.

(ii) Over two-thirds of the transmissions, measured in megabytes, transmitted by or on behalf of those direct broadcast television or data transmission services during the test period were transmitted by the facility to or on behalf of those services.

For the purposes of subdivision (b) of this paragraph, "test period" means the three hundred sixty-five day period beginning on the later of the date on which the tangible personal property is purchased or the date on which the direct broadcast satellite television or data transmission service first transmits information to its customers.

17. Clean rooms that are used for manufacturing, processing, fabrication or research and development, as defined in paragraph 14 of this subsection, of semiconductor products. For the purposes of this paragraph, "clean room" means all property that comprises or creates an environment where humidity, temperature, particulate matter and contamination are precisely controlled within specified parameters, without regard to whether the property is actually contained within that environment or whether any of the property is affixed to or incorporated into real property. Clean room:

(a) Includes the integrated systems, fixtures, piping, movable partitions, lighting and all property that is necessary or adapted to reduce contamination or to control airflow, temperature, humidity, chemical purity or other environmental conditions or manufacturing tolerances, as well as the production machinery and equipment operating in conjunction with the clean room environment.

(b) Does not include the building or other permanent, nonremovable component of the building that houses the clean room environment.

18. Machinery and equipment that are used directly in the feeding of poultry, the environmental control of housing for poultry, the movement of eggs within a production and packaging facility or the sorting or cooling of eggs. This exemption does not apply to vehicles used for transporting eggs.

19. Machinery or equipment, including related structural components, that is employed in connection with manufacturing, processing, fabricating, job printing, refining, mining, natural gas pipelines, metallurgical operations, telecommunications, producing or transmitting electricity or research and development and that is used directly to meet or exceed rules or regulations adopted by the federal energy regulatory commission, the United States environmental protection agency, the United States nuclear regulatory commission, the Arizona department of environmental quality or a political subdivision of this state to prevent, monitor, control or reduce land, water or air pollution.



1       20. Machinery and equipment that are used in the commercial production  
2 of livestock, livestock products or agricultural, horticultural, viticultural  
3 or floricultural crops or products in this state and that are used directly  
4 and primarily to prevent, monitor, control or reduce air, water or land  
5 pollution.

6       21. Machinery or equipment that enables a television station to  
7 originate and broadcast or to receive and broadcast digital television  
8 signals and that was purchased to facilitate compliance with the  
9 telecommunications act of 1996 (P.L. 104-104; 110 Stat. 56; 47 United States  
10 Code section 336) and the federal communications commission order issued  
11 April 21, 1997 (47 Code of Federal Regulations part 73). This paragraph does  
12 not exempt any of the following:

13       (a) Repair or replacement parts purchased for the machinery or  
14 equipment described in this paragraph.

15       (b) Machinery or equipment purchased to replace machinery or equipment  
16 for which an exemption was previously claimed and taken under this paragraph.

17       (c) Any machinery or equipment purchased after the television station  
18 has ceased analog broadcasting, or purchased after November 1, 2009,  
19 whichever occurs first.

20       22. Qualifying equipment that is purchased from and after June 30, 2004  
21 through June 30, 2014 by a qualified business under section 41-1516 for  
22 harvesting or the initial processing of qualifying forest products removed  
23 from qualifying projects as defined in section 41-1516. To qualify for this  
24 exemption, the qualified business must obtain and present its certification  
25 from the department of commerce at the time of purchase.

26       23. Machinery, equipment and other tangible personal property used  
27 directly in motion picture production by a motion picture production company.  
28 To qualify for this exemption, at the time of purchase, the motion picture  
29 production company must present to the retailer its certificate that is  
30 issued pursuant to section 42-5009, subsection H and that establishes its  
31 qualification for the exemption.

32       C. The exemptions provided by subsection B of this section do not  
33 include:

34       1. Expendable materials. For the purposes of this paragraph,  
35 expendable materials do not include any of the categories of tangible  
36 personal property specified in subsection B of this section regardless of the  
37 cost or useful life of that property.

38       2. Janitorial equipment and hand tools.

39       3. Office equipment, furniture and supplies.

40       4. Tangible personal property used in selling or distributing  
41 activities, other than the telecommunications transmissions described in  
42 subsection B, paragraph 16 of this section.

43       5. Motor vehicles required to be licensed by this state, except buses  
44 or other urban mass transit vehicles specifically exempted pursuant to

1 subsection B, paragraph 11 of this section, without regard to the use of such  
2 motor vehicles.

3 6. Shops, buildings, docks, depots and all other materials of whatever  
4 kind or character not specifically included as exempt.

5 7. Motors and pumps used in drip irrigation systems.

6 D. The following shall be deducted in computing the purchase price of  
7 electricity by a retail electric customer from a utility business:

8 1. Revenues received from sales of ancillary services, electric  
9 distribution services, electric generation services, electric transmission  
10 services and other services related to providing electricity to a retail  
11 electric customer who is located outside this state for use outside this  
12 state if the electricity is delivered to a point of sale outside this state.

13 2. Revenues received from providing electricity, including ancillary  
14 services, electric distribution services, electric generation services,  
15 electric transmission services and other services related to providing  
16 electricity with respect to which the transaction privilege tax imposed under  
17 section 42-5063 has been paid.

18 E. The tax levied by this article does not apply to:

19 1. The storage, use or consumption in Arizona of machinery, equipment,  
20 materials or other tangible personal property if used directly and  
21 predominantly to construct a qualified environmental technology  
22 manufacturing, producing or processing facility, as described in section  
23 41-1514.02. This paragraph applies for ten full consecutive calendar or  
24 fiscal years after the start of initial construction.

25 2. The purchase of electricity by a qualified environmental technology  
26 manufacturer, producer or processor as defined in section 41-1514.02 that is  
27 used directly in environmental technology manufacturing, producing or  
28 processing. This paragraph shall apply for fifteen full consecutive calendar  
29 or fiscal years from the date the first paper manufacturing machine is placed  
30 in service. In the case of an environmental technology manufacturer,  
31 producer or processor who does not manufacture paper, the time period shall  
32 begin with the date the first manufacturing, processing or production  
33 equipment is placed in service.

34 F. The following shall be deducted in computing the purchase price of  
35 electricity by a retail electric customer from a utility business:

36 1. Fees charged by a municipally owned utility to persons constructing  
37 residential, commercial or industrial developments or connecting residential,  
38 commercial or industrial developments to a municipal utility system or  
39 systems if the fees are segregated and used only for capital expansion,  
40 system enlargement or debt service of the utility system or systems.

41 2. Reimbursement or contribution compensation to any person or persons  
42 owning a utility system for property and equipment installed to provide  
43 utility access to, on or across the land of an actual utility consumer if the  
44 property and equipment become the property of the utility. This deduction  
45 shall not exceed the value of such property and equipment.

1           G. For the purposes of subsection B of this section:

2           1. "Aircraft" includes:

3           (a) An airplane flight simulator that is approved by the federal  
4 aviation administration for use as a phase II or higher flight simulator  
5 under appendix H, 14 Code of Federal Regulations part 121.

6           (b) Tangible personal property that is permanently affixed or attached  
7 as a component part of an aircraft that is owned or operated by a  
8 certificated or licensed carrier of persons or property.

9           2. "Other accessories and related equipment" includes aircraft  
10 accessories and equipment such as ground service equipment that physically  
11 contact aircraft at some point during the overall carrier operation.

12          H. For the purposes of subsection D of this section, "ancillary  
13 services", "electric distribution service", "electric generation service",  
14 "electric transmission service" and "other services" have the same meanings  
15 prescribed in section 42-5063.